

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Cass City	County Tuscola
Fiscal Year End 12/31/06	Opinion Date 4/18/07	Date Audit Report Submitted to State 5/4/07	

We affirm that:

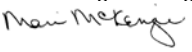
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | |
|-----|-------------------------------------|--------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Check each applicable box below. (See instructions for further detail.)
All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit	
Certified Public Accountant (Firm Name) Yeo & Yeo CPAs and Business Consultants		Telephone Number (989)635-7518	
Street Address 3149 Main Street Plaza #4 P.O. Box 218		City Marlette	State Michigan
Authorizing CPA Signature 		Printed Name Mari McKenzie	License Number 1101010725

Village of Cass City

Cass City, Michigan

**Annual Financial Statements
and
Auditors' Report
December 31, 2006**

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Village of Cass City
List of Elected and Appointed Officials
December 31, 2006

Village Council

Lambert E. Althaver	President
Donald B. Richards	President Pro-Tem
James Heiser	Trustee
Jeff Gillig	Trustee
Dwight D. Thabet	Trustee
Jenny Zawilinski	Trustee
Michael Kirn	Trustee

Administration

Peter Cristiano	Village Manager
Nanette Walsh	Village Clerk/Treasurer



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Independent Auditors' Report

Village Council
Village of Cass City
Cass City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2007 on our consideration of the Village of Cass City internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Cass City's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

April 18, 2007

Marlette, Michigan

Village of Cass City

Management's Discussion and Analysis

Year Ended December 31, 2006

Our discussion and analysis of the Village of Cass City's financial performance provides an overview of the Village's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2006.

Total net assets related to the Village's governmental activities is \$ 3,033,062 (see Table 1). The unrestricted portion of net assets is \$ 848,170.

Tax revenues, the Village's largest revenue source, increased by \$ 30,452 from 2005. This is representative of the increase in property values, with respect to Proposal A. Without new development, the Village will be faced with declining tax revenue, a direct result of Proposal A, which is a major concern to the Village.

State shared revenues, our second largest revenue source, was again reduced by the State of Michigan by about \$ 4,315 this year. In light of continuing State Budget Problems, and constant threat to take away all statutory revenue sharing, the Village has reacted by invoking tighter controls over all expenditures. As the State of Michigan struggles with its budget challenges for 2007 and beyond, state shared revenues continue to be a concern for the Village.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village of Cass City as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services. The fund financial statements present a short-term view; they tell us how

the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2006

The Village of Cass City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Table 1

	Governmental Activities 2006	Governmental Activities 2005	Business-type Activities 2006	Business-type Activities 2005	Total 2006	Total 2005
Assets						
Other	\$ 1,578,718	\$ 1,504,055	\$ 343,130	\$ 185,644	\$ 1,921,848	\$ 1,689,699
Capital	<u>1,749,628</u>	<u>1,573,019</u>	<u>3,771,052</u>	<u>3,215,726</u>	<u>5,520,680</u>	<u>4,788,745</u>
Total Current Assets	3,328,346	3,077,074	4,114,182	3,401,370	7,442,528	6,478,444
Liabilities						
Other	65,452	74,857	52,188	108,380	117,640	183,237
Long-term	<u>229,832</u>	<u>131,649</u>	<u>924,000</u>	<u>295,357</u>	<u>1,153,832</u>	<u>427,006</u>
Total Liabilities	295,284	206,506	976,188	403,737	1,271,472	610,243
Net Assets						
Invested in capital assets, net of related debt	1,519,796	1,407,147	2,847,052	2,892,348	4,366,848	4,299,495
Restricted for debt service	-	-	9,560	-	9,560	-
Restricted streets and highways	634,792	627,536	-	-	634,792	627,536
Restricted for special levied taxes	30,304	27,927	-	-	30,304	27,927
Restricted for repair replacement and improvement	-	-	3,000	-	3,000	-
Unrestricted	<u>848,170</u>	<u>807,958</u>	<u>278,382</u>	<u>105,285</u>	<u>1,126,552</u>	<u>913,243</u>
Total net assets	\$ 3,033,062	\$ 2,870,568	\$ 3,137,994	\$ 2,997,633	\$ 6,171,056	\$ 5,868,201

**Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2006**

Village of Cass City net assets of governmental activities are \$ 3,033,062 and \$ 3,137,994 for business type activities; of these amounts \$ 848,170 (governmental) and \$ 278,382 (business-type) are unrestricted assets.

Table 2

	Governmental Activities 2006	Governmental Activities 2005	Business-type Activities 2006	Business-type Activities 2005	Total 2006	Total 2005
Revenue						
Program revenue						
Charges for services	\$ 169,481	\$ 431,550	\$ 954,330	\$ 848,992	\$ 1,123,811	\$ 1,280,542
Operating grants and contributions	311,282	4,904	-	-	311,282	4,904
Capital grants and contributions	40,500	-	-	-	40,500	-
General revenue:						
Property taxes	1,051,414	1,020,962	-	-	1,051,414	1,020,962
State-shared revenue	275,284	555,019	-	-	275,284	555,019
Interest	39,913	24,265	10,133	2,653	50,046	26,918
Franchise fees and other revenue	114,897	34,181	9,257	3,435	124,154	37,616
Total revenue	2,002,771	2,070,881	973,720	855,080	2,976,491	2,925,961
Program expenses						
General government/legislative	458,592	412,293	-	-	458,592	412,293
Public safety	447,514	476,590	-	-	447,514	476,590
Public works	635,734	610,082	-	-	635,734	610,082
Recreation and culture	293,876	417,258	-	-	293,876	417,258
Interest on long-term debt	6,956	6,966	-	-	6,956	6,966
Water and sewer	-	-	833,359	821,265	833,359	821,265
Other	44,682	20,073	-	-	44,682	20,073
Total program expenses	1,887,354	1,943,262	833,359	821,265	2,720,713	2,764,527
Change in net assets	115,417	127,619	140,361	33,815	255,778	161,434
Net assets - beginning of year	2,870,568	2,742,949	2,997,633	2,963,818	5,868,201	5,706,767
Prior period adjustment	47,077	-	-	-	47,077	-
Net assets - beginning of year (restated)	2,917,645	2,742,949	2,997,633	2,963,818	5,915,278	5,706,767
Net assets - end of year	\$ 3,033,062	\$ 2,870,568	\$ 3,137,994	\$ 2,997,633	\$ 6,171,056	\$ 5,868,201

Village of Cass City

Management's Discussion and Analysis

Year Ended December 31, 2006

Governmental Activities

The Village of Cass City's total governmental activity revenues were \$ 2,002,771. There was a slight decrease in State-shared revenue, which has been offset with a slight increase in property taxes. Service fees and charges for services were lower than anticipated.

Governmental activity expenditures of \$ 1,887,354 were recorded for the year. This included increases in health care costs and property and liability insurance rates, but also reflected an increase in administrative costs due to the full-time status of the Village Manager. The Village Manager and Department Head Staff closely monitored its operational costs and spending in all areas, and the Village Council approved two budget amendments in 2006.

Business Type Activities

The Village of Cass City business-type activity consists of Water Fund and Sewer Fund.

The Village provides treated water to the Village residents. Raw water is pumped from three Village owned wells. The Village also provides water to four Elkland Township customers.

The Village also provides municipal sanitary sewer to its residents.

The Village increased water rates in fiscal year 2006 in a continuing effort to finance a facility to comply with new Environmental Protection Agency (EPA) Arsenic Removal Rules that took effect January 26, 2006. The Village entered into an Administrative Consent Order with the Michigan Department of Environmental Quality that allowed the Village two years to comply with the new Arsenic Removal Rules.

Through the efforts of the Village and Spicer Engineering, a loan was secured for approximately \$1.9 million from the United States Department of Agriculture, Rural Development Agency (USRD). The loan is at the rate of 4.18% to be repaid over a 40 year period, with installments of \$ 96,000 per year, from revenues collected from water users. The water rate increase will allow these payments to be made,

plus secure a reserve account.

The USRD loan also included a debt payoff of construction costs of Well #3, which have been included in the \$ 1.9 million loan, at a lower interest rate than the current 4.95% APR. The debt payoff of Well #3 was done at the USDA/RD loan closing in June 2006.

Specifications are prepared for the federally mandated Arsenic Treatment Facility (ATF). The ATF includes the arsenic treatment processing equipment, vehicle maintenance bays, and locker rooms for staff. Construction began in August 2006, with the expected completion in June 2007.

Village of Cass City Funds

The fund financial statements provide detailed information about the most significant funds. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2006. The Cass City Village governmental major funds include General Fund, Major Street Fund, and Local Street Fund. The business type activities include the Water Fund and Sewer Fund.

a) General Fund

Functions relating to the general governmental activities of the Village, which are financed by property tax levies, by distribution of State revenues, and from fees charged for various municipal activities and services are recorded in the General Fund. This fund had an increase in fund balance of \$ 13,207 over 2005.

b) Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the Village's street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The Village uses these funds for improvements to the Village street system, along with contributions from General Fund.

Village of Cass City

Management's Discussion and Analysis

Year Ended December 31, 2006

A state grant funded by the Michigan Strategic Fund/Michigan State Housing Development Authority (MSHDA) was approved for \$ 45,000, leveraged by a \$ 45,000 local cash match, to replace poor sidewalks along Seeger and Main Streets. To meet the match requirement, Act 51 funds, now allowable for use to maintain and replace existing sidewalks, were utilized. Even after this significant investment in village sidewalks, an aggressive street sealing project, and increased street paving work over prior years, the fund balances in Major and Local Streets increased by \$ 7,256 in 2006.

c) **Other Governmental Funds**

Downtown Development Authority (DDA) and Economic Development Corporation (EDC) are two additional funds maintained by the Village of Cass City for the growth and enhancement of programs in the Village.

d) **Water Fund**

The Village of Cass City maintains a municipal water system which is currently being updated with the Arsenic Removal Treatment System. This project is being financed with a loan from USDA Rural Development. To support the project and other rising costs of this fund, annual rate increases began in January, 2006. The year finished with an increase in net assets of \$ 135,965. This was an anticipated increase which will provide funds for principal and interest payments on the USDA loan and to pay back \$ 130,274 due to other funds.

e) **Sewer Fund**

The Wastewater Treatment Fund (Sanitary Sewer) accounts for activities of the sewage collection system. This fund had an increase in net assets of \$ 1,487. An increase in sewer rates was established to cover rising costs within the fund and to develop an improvement and maintenance plan for the twenty-five year old plant.

General Fund Budgetary Highlights

Over the course of the year, the Village Council and Village administration monitor and amend the budget to account for unanticipated events during the year. The most significant change was a slow growth in State Equalized Values (SEV) of property in the Village, a decrease in State Shared Revenue, additional unfunded mandates, and increased benefit costs. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these issues.

Capital Asset and Debt Administration

At the end of 2006, the Village of Cass City has \$ 17,884,354 invested in a wide range of capital assets, including land, buildings, equipment, computer equipment, and water and sewer lines. A majority of the increase in capital assets was due to the arsenic treatment plant that is under construction. The value of the capital assets, net of depreciation contained in this report, is \$ 5,520,680 at the end of 2006.

Debt reported in these financial statements includes a loan from USDA Rural Development for construction of a new arsenic treatment plant and refinance of an installment loan for a well constructed in 1998. Also, during 2006 a downtown building was purchased on a land contract. The Village also has debt related to street construction that is paid by a Special Assessment on Northwood Meadows Assisted Living Facility. Finally there is debt reported from the lease of police vehicles. The Village has leased police vehicles since 1998 in an effort to save money. All debt is reported as a liability on the statement of net assets in this document.

Economic Factors and Next Year's Budgets and Rates

The Village of Cass City's budget for next year is slightly decreased due to the Headlee Amendment. Because of the impact of Proposal A, and the minimal increase in taxable value, this increase will be minimal. However, the Village needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or five (5) percent.

**Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2006**

Because some properties increased by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year with the potential for further decreases again due to State cutbacks.

The Village will need to address reductions in revenues to sustain a healthy budget. Commercial and residential development would help the Village maintain a healthy budget. The Village has encouraged economic development as well as residential development and will continue to in the future.

Contacting the Village of Cass City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village of Cass City's finances and to show the Village's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Village Manager, 6506 Main St., Cass City, MI 48726, (989) 872-2911 or via email at villagemanager@cass-city.net.

Village of Cass City
Statement of Net Assets
December 31, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,235,514	\$ 289,552	\$ 1,525,066
Receivables			
Taxes	11,755	-	11,755
Customers	28,395	136,040	164,435
Special assessments	120,000	-	120,000
Due from other units of government	78,838	-	78,838
Internal balances	95,022	(95,022)	-
Inventories	86	-	86
Prepaid items	9,108	-	9,108
Restricted assets			
Cash and cash equivalents	-	12,560	12,560
Capital assets, net			
Non-depreciated	655,205	751,840	1,407,045
Depreciated	1,094,423	3,019,212	4,113,635
Total assets	<u>3,328,346</u>	<u>4,114,182</u>	<u>7,442,528</u>
Liabilities			
Accounts payable	39,303	44,416	83,719
Accrued and other liabilities	26,149	7,772	33,921
Noncurrent liabilities			
Due within one year	33,116	15,000	48,116
Due in more than one year	196,716	909,000	1,105,716
Total liabilities	<u>295,284</u>	<u>976,188</u>	<u>1,271,472</u>
Net Assets			
Invested in capital assets, net of related debt	1,519,796	2,847,052	4,366,848
Restricted for:			
Debt service	-	9,560	9,560
Streets and highways	634,792	-	634,792
Special levied taxes	30,304	-	30,304
Repair replacement and improvement	-	3,000	3,000
Unrestricted	848,170	278,382	1,126,552
Total net assets	<u>\$ 3,033,062</u>	<u>\$ 3,137,994</u>	<u>\$ 6,171,056</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Statement of Activities
For the Year Ended December 31, 2006**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary government							
Governmental activities							
General government	\$ 458,592	\$ 169,481	\$ 8,700	\$ -	\$ (280,411)	\$ -	\$ (280,411)
Public safety	447,514	-	1,188	-	(446,326)	-	(446,326)
Public works	635,734	-	301,394	40,500	(293,840)	-	(293,840)
Community and economic development	44,682	-	-	-	(44,682)	-	(44,682)
Recreation and culture	293,876	-	-	-	(293,876)	-	(293,876)
Interest on long-term debt	6,956	-	-	-	(6,956)	-	(6,956)
Total governmental activities	<u>1,887,354</u>	<u>169,481</u>	<u>311,282</u>	<u>40,500</u>	<u>(1,366,091)</u>	<u>-</u>	<u>(1,366,091)</u>
Business-type activities							
Sewer	583,843	579,445	-	-	-	(4,398)	(4,398)
Water	249,516	374,885	-	-	-	125,369	125,369
Total business-type activities	<u>833,359</u>	<u>954,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,971</u>	<u>120,971</u>
Total primary government	<u>\$ 2,720,713</u>	<u>\$ 1,123,811</u>	<u>\$ 311,282</u>	<u>\$ 40,500</u>	<u>(1,366,091)</u>	<u>120,971</u>	<u>(1,245,120)</u>
General revenues							
Property taxes					1,051,414	-	1,051,414
State shared revenue					275,284	-	275,284
Unrestricted investment earnings					39,913	10,133	50,046
Miscellaneous					114,897	9,257	124,154
Total general revenues and transfers					<u>1,481,508</u>	<u>19,390</u>	<u>1,500,898</u>
Change in net assets					115,417	140,361	255,778
Net assets - beginning of year					2,870,568	2,997,633	5,868,201
Prior period adjustment					47,077	-	47,077
Net assets - beginning of year (restated)					<u>2,917,645</u>	<u>2,997,633</u>	<u>5,915,278</u>
Net assets - end of year					<u>\$ 3,033,062</u>	<u>\$ 3,137,994</u>	<u>\$ 6,171,056</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Governmental Funds
Balance Sheet
December 31, 2006**

	<u>Special Revenue Funds</u>			Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>		
Assets					
Cash and cash equivalents	\$ 345,577	\$ 384,000	\$ 245,772	\$ 42,075	\$ 1,017,424
Receivables					
Taxes	11,755	-	-	-	11,755
Customers	28,395	-	-	-	28,395
Special assessments	-	-	120,000	-	120,000
Due from other units of government	45,791	24,074	8,973	-	78,838
Due from other funds	102,133	-	-	-	102,133
Inventories	86	-	-	-	86
Prepaid items	9,108	-	-	-	9,108
Total assets	<u>\$ 542,845</u>	<u>\$ 408,074</u>	<u>\$ 374,745</u>	<u>\$ 42,075</u>	<u>\$ 1,367,739</u>
Liabilities					
Accounts payable	\$ 11,663	\$ 16,297	\$ 4,996	\$ 2,292	\$ 35,248
Accrued and other liabilities	16,542	2,834	3,900	-	23,276
Deferred revenue	-	-	120,000	-	120,000
Total liabilities	<u>28,205</u>	<u>19,131</u>	<u>128,896</u>	<u>2,292</u>	<u>178,524</u>
Fund Balances					
Reserved for:					
Streets and highways	-	388,943	245,849	-	634,792
Special levied taxes	30,304	-	-	-	30,304
Unreserved					
Designated for:					
Police department	8,000	-	-	-	8,000
Unreserved, reported in:					
General fund	476,336	-	-	-	476,336
Special revenue funds	-	-	-	39,783	39,783
Total fund balances	<u>514,640</u>	<u>388,943</u>	<u>245,849</u>	<u>39,783</u>	<u>1,189,215</u>
Total liabilities and fund balances	<u>\$ 542,845</u>	<u>\$ 408,074</u>	<u>\$ 374,745</u>	<u>\$ 42,075</u>	<u>\$ 1,367,739</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
December 31, 2006**

Total fund balances for governmental funds	\$ 1,189,215
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,614,511
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	120,000
Certain liabilities are not due and payable in the current period and are not reported in the funds. Accrued interest	(1,339)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(209,900)
Internal service funds are included as part of governmental activities.	<u>320,575</u>
Net assets of governmental activities	<u><u>\$ 3,033,062</u></u>

Village of Cass City
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2006

	Special Revenue Funds			Nonmajor	Total
	General	Major Street	Local Street	Governmental	Governmental
				Funds	Funds
Revenues					
Taxes	\$ 734,703	\$ 7,693	\$ 261,383	\$ 47,635	\$ 1,051,414
Federal grants	-	40,500	-	-	40,500
State shared revenue	275,284	-	-	-	275,284
Other state grants	1,188	189,215	112,179	-	302,582
Local contributions	8,700	-	-	-	8,700
Charges for services	156,964	-	26,286	-	183,250
Fines and forfeitures	4,477	-	-	-	4,477
Interest income	8,695	15,419	7,849	1,429	33,392
Other revenue	109,944	1,000	1,057	4,650	116,651
Total revenues	<u>1,299,955</u>	<u>253,827</u>	<u>408,754</u>	<u>53,714</u>	<u>2,016,250</u>
Expenditures					
Current					
General government	453,285	-	-	-	453,285
Public safety	414,196	-	-	-	414,196
Public works	145,536	280,416	349,598	-	775,550
Community and economic development	535	-	-	59,424	59,959
Recreation and culture	271,996	-	-	-	271,996
Debt service	-	-	-	-	-
Principal retirement	-	-	20,000	-	20,000
Interest and fiscal charges	-	-	5,311	-	5,311
Total expenditures	<u>1,285,548</u>	<u>280,416</u>	<u>374,909</u>	<u>59,424</u>	<u>2,000,297</u>
Excess (deficiency) of revenues over expenditures	<u>14,407</u>	<u>(26,589)</u>	<u>33,845</u>	<u>(5,710)</u>	<u>15,953</u>
Other financing sources (uses)					
Transfers in	-	-	-	1,200	1,200
Transfers out	(1,200)	-	-	-	(1,200)
Total other financing sources and uses	<u>(1,200)</u>	<u>-</u>	<u>-</u>	<u>1,200</u>	<u>-</u>
Net change in fund balance	<u>13,207</u>	<u>(26,589)</u>	<u>33,845</u>	<u>(4,510)</u>	<u>15,953</u>
Fund balance - beginning of year	454,356	415,532	212,004	44,293	1,126,185
Prior period adjustment	47,077	-	-	-	47,077
Fund balance - beginning of year restated	<u>501,433</u>	<u>415,532</u>	<u>212,004</u>	<u>44,293</u>	<u>1,173,262</u>
Fund balance - end of year	<u>\$ 514,640</u>	<u>\$ 388,943</u>	<u>\$ 245,849</u>	<u>\$ 39,783</u>	<u>\$ 1,189,215</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006**

Net change in fund balances - Total governmental funds	\$ 15,953
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(158,870)
Capital outlay	228,395
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Special assessments	(20,000)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	(1,645)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Repayments of long-term debt	20,000
Internal service funds are also included as governmental activities	<u>31,584</u>
Change in net assets of governmental activities	<u>\$ 115,417</u>

Village of Cass City
Proprietary Funds
Statement of Net Assets
December 31, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 225,499	\$ 64,053	\$ 289,552	\$ 218,090
Receivables				
Customers	83,253	52,787	136,040	-
Due from other funds	28,141	-	28,141	-
Total current assets	<u>336,893</u>	<u>116,840</u>	<u>453,733</u>	<u>218,090</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	-	12,560	12,560	-
Capital assets, net	<u>2,446,544</u>	<u>1,324,508</u>	<u>3,771,052</u>	<u>135,117</u>
Total noncurrent assets	<u>2,446,544</u>	<u>1,337,068</u>	<u>3,783,612</u>	<u>135,117</u>
Total assets	<u>2,783,437</u>	<u>1,453,908</u>	<u>4,237,345</u>	<u>353,207</u>
Liabilities				
Current liabilities				
Accounts payable	15,404	29,012	44,416	4,055
Accrued and other liabilities	7,182	590	7,772	1,534
Due to other funds	-	130,274	130,274	-
Current portion of noncurrent liabilities	<u>-</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Total current liabilities	<u>22,586</u>	<u>174,876</u>	<u>197,462</u>	<u>5,589</u>
Noncurrent liabilities				
Long-term debt net of current portion	<u>-</u>	<u>909,000</u>	<u>909,000</u>	<u>19,932</u>
Total liabilities	<u>22,586</u>	<u>1,083,876</u>	<u>1,106,462</u>	<u>25,521</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Proprietary Funds
Statement of Net Assets
December 31, 2006

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Net Assets				
Invested in capital assets, net of related debt	2,446,544	400,508	2,847,052	115,185
Restricted for:				
Bond and interest redemption	-	9,560	9,560	-
Repair replacement and improvement	-	3,000	3,000	-
Unrestricted (deficit)	<u>314,307</u>	<u>(43,036)</u>	<u>271,271</u>	<u>212,501</u>
 Total net assets	 <u>\$ 2,760,851</u>	 <u>\$ 370,032</u>	 3,130,883	 <u>\$ 327,686</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>7,111</u>	
Net assets of business-type activities			<u>\$ 3,137,994</u>	

Village of Cass City
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Operating revenue				
Customer fees	\$ 575,888	\$ 371,493	\$ 947,381	\$ -
Billings to other funds	-	-	-	201,772
Connection fees	2,250	3,375	5,625	-
Other revenue	1,307	9,274	10,581	-
	<u>579,445</u>	<u>384,142</u>	<u>963,587</u>	<u>201,772</u>
Operating expenses				
Personnel services	249,408	103,843	353,251	41,483
Supplies	43,789	19,714	63,503	34,832
Contractual services	36,565	28,037	64,602	-
Utilities	69,210	11,916	81,126	-
Repairs and maintenance	9,269	1,105	10,374	28,149
Other expenses	20,534	33,839	54,373	29,164
Depreciation	156,271	52,768	209,039	47,292
	<u>585,046</u>	<u>251,222</u>	<u>836,268</u>	<u>180,920</u>
Total operating expenses				
	<u>(5,601)</u>	<u>132,920</u>	<u>127,319</u>	<u>20,852</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Nonoperating revenue (expenses)				
Interest income	7,088	3,045	10,133	6,521
Gain on sale of assets	-	-	-	7,120
Total nonoperating revenues (expenses)	7,088	3,045	10,133	13,641
Change in net assets	1,487	135,965	137,452	34,493
Net assets - beginning of year	2,759,364	234,067		293,193
Net assets - end of year	<u>\$ 2,760,851</u>	<u>\$ 370,032</u>		<u>\$ 327,686</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			2,909	
Change in net assets of business-type activities			<u>\$ 140,361</u>	

Village of Cass City
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Cash flows from operating activities				
Receipts from customers	\$ 583,735	\$ 373,517	\$ 957,252	\$ -
Receipts from interfund users	-	-	-	201,772
Receipts from other funds	(9,548)	-	(9,548)	-
Payments to other funds	-	10,663	10,663	-
Payments to suppliers	(172,933)	(108,348)	(281,281)	(92,869)
Payments to employees	(249,408)	(103,843)	(353,251)	(41,483)
Payments for interfund services used	(8,621)	(12,247)	(20,868)	-
	<u>143,225</u>	<u>159,742</u>	<u>302,967</u>	<u>67,420</u>
Net cash provided by operating activities				
Cash flows from capital and related financing activities				
Proceeds from capital debt	-	924,000	924,000	20,474
Purchases/construction of capital assets	(65,462)	(698,903)	(764,365)	(69,475)
Principal and interest paid on long-term debt	-	(323,377)	(323,377)	(21,414)
Proceeds from sale of capital assets	-	-	-	7,120
	<u>(65,462)</u>	<u>(98,280)</u>	<u>(163,742)</u>	<u>(63,295)</u>
Net cash used by capital and related financing activities				
Cash flows from investing activities				
Interest received	<u>7,088</u>	<u>3,045</u>	<u>10,133</u>	<u>6,521</u>
Net change in cash and cash equivalents	84,851	64,507	149,358	10,646
Cash and cash equivalents - beginning of year	<u>140,648</u>	<u>12,106</u>	<u>152,754</u>	<u>207,444</u>
Cash and cash equivalents - end of year	<u>\$ 225,499</u>	<u>\$ 76,613</u>	<u>\$ 302,112</u>	<u>\$ 218,090</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (5,601)	\$ 132,920	\$ 127,319	\$ 20,852
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	156,271	52,768	209,039	47,292
Changes in assets and liabilities				
Receivables (net)	4,290	(10,625)	(6,335)	-
Due from other funds	(9,548)	-	(9,548)	-
Accounts payable	(2,295)	(23,218)	(25,513)	(796)
Accrued and other liabilities	108	(2,766)	(2,658)	72
Due to other funds	-	10,663	10,663	-
Net cash provided by operating activities	<u>\$ 143,225</u>	<u>\$ 159,742</u>	<u>\$ 302,967</u>	<u>\$ 67,420</u>

Village of Cass City
Notes to Financial Statements
December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Village of Cass City is governed by an elected seven-member Council. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Village of Cass City
Notes to Financial Statements
December 31, 2006

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the Village. Funding is primarily through state shared gas and weight taxes.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal

Village of Cass City
Notes to Financial Statements
December 31, 2006

service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each January 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2006 taxable valuation of the government totaled \$ 56,380,364, on which ad valorem taxes consisted of 12.4625 mills for operating purposes. This resulted in \$ 702,640 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Inventories and prepaid items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted cash.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	10 to 40 years
Building improvements	10 to 40 years
Water and sewer lines	10 to 40 years
Vehicles	5 to 10 years
Office equipment computer equipment	5 to 10 years
Computer equipment	5 to 10 years

Village of Cass City
Notes to Financial Statements
December 31, 2006

Compensated absences – Exchange time is defined as those hours that the employee can take as paid time off in lieu of overtime pay. The maximum number of hours that can be held in a bank at any one time during a fiscal year is forty. Exchange time can be carried over into the next fiscal year and must be used during the first three months of the new fiscal year. Any unused hours as of March 31st of the new fiscal year will be paid to the employee at the rate of pay in effect the prior fiscal year.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to December 1, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following January 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of a resolution prior to January 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

Village of Cass City
Notes to Financial Statements
December 31, 2006

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 1,235,514	\$ 289,552	\$ 1,525,066
Restricted cash and cash equivalents	<u>-</u>	<u>12,560</u>	<u>12,560</u>
Total primary government	<u>\$ 1,235,514</u>	<u>\$ 302,112</u>	<u>\$ 1,537,626</u>

The breakdown between deposits and investments is as follows:

	Primary
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,536,921
Petty cash and cash on hand	<u>705</u>
	<u>\$ 1,537,626</u>

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 1,384,280 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. There were no investments held at year end.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
Primary government		
Special assessments	\$ <u>100,000</u>	Local Street

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable
Primary government	
Special assessments	\$ <u>120,000</u>

Village of Cass City
Notes to Financial Statements
December 31, 2006

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 655,205	\$ -	\$ -	\$ 655,205
Capital assets being depreciated				
Land improvements	310,246	-	-	310,246
Infrastructure	6,122,376	202,203	-	6,324,579
Buildings, additions and improvements	703,625	111,093	-	814,718
Machinery and equipment	760,035	69,475	41,878	787,632
Total capital assets being depreciated	7,896,282	382,771	41,878	8,237,175
Less accumulated depreciation for				
Land improvements	224,020	11,230	-	235,250
Infrastructure	5,579,808	131,147	-	5,710,955
Buildings, additions and improvements	527,539	16,493	-	544,032
Machinery and equipment	647,101	47,292	41,878	652,515
Total accumulated depreciation	6,978,468	206,162	41,878	7,142,752
Net capital assets being depreciated	917,814	176,609	-	1,094,423
Governmental activities capital assets, net	\$ 1,573,019	\$ 176,609	\$ -	\$ 1,749,628

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 112,453	\$ 639,387	\$ -	\$ 751,840
Capital assets being depreciated				
Buildings, additions and improvements	3,101,621	-	-	3,101,621
Machinery and equipment	150,023	-	-	150,023
Water system	1,023,667	59,516	-	1,083,183
Sewer system	3,839,845	65,462	-	3,905,307
Total capital assets being depreciated	8,115,156	124,978	-	8,240,134
Less accumulated depreciation for				
Buildings, additions and improvements	1,616,660	69,268	-	1,685,928
Machinery and equipment	142,279	3,290	-	145,569
Water system	465,409	51,340	-	516,749
Sewer system	2,787,535	85,141	-	2,872,676
Total accumulated depreciation	5,011,883	209,039	-	5,220,922
Net capital assets being depreciated	3,103,273	(84,061)	-	3,019,212
Business-type capital assets, net	\$ 3,215,726	\$ 555,326	\$ -	\$ 3,771,052

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 36,463
Public safety	33,318
Public works	62,386
Community and economic development	4,823
Recreation and culture	21,880
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	47,292
Total governmental activities	206,162

Business-type activities

Sewer	156,271
Water	52,768
Total business-type activities	209,039
Total primary government	\$415,201

Village of Cass City
Notes to Financial Statements
December 31, 2006

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds		
General fund	Water fund	\$ 102,133
Sewer fund	Water fund	28,141
		<u>\$ 130,274</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	EDC	<u>\$ 1,200</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE 7 - LEASES

Capital leases

The government has capital leases for police vehicles. The future minimum lease payments are as follows:

<u>Year ending December 31,</u>		
	2007	\$ 14,305
	2008	<u>7,256</u>
Total minimum lease payments		21,561
Less amount representing interest		<u>1,629</u>
Present value of minimum lease payments		<u>\$ 19,932</u>
Asset		
	Machinery and equipment	\$ 82,285
	Less accumulated depreciation	<u>57,003</u>
Total		<u>\$ 25,282</u>

Village of Cass City
Notes to Financial Statements
December 31, 2006

NOTE 8 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund, Sewer Fund and Water Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
Special assessment obligations									
Special assessment bonds	\$ 165,000	10/01/13	3.49%	\$ 15,000	\$ 145,000	\$ -	\$ 20,000	\$ 125,000	\$ 20,000
Installment purchase agreements									
Land contract - building	85,000	05/09/08	7.00%	\$0 - \$88,000	-	84,900	-	84,900	-
Capital leases									
Capitalized lease - vehicle	20,345	02/09/06	5.90%	\$6,000 - \$7,000	6,774	-	6,774	-	-
Capitalized lease - vehicle	20,155	03/15/07	5.00%	\$6,000 - \$7,000	14,098	-	7,385	6,713	6,713
Capitalized lease - vehicle	20,474	05/23/08	6.45%	\$6,400 - \$7,300	-	20,474	7,255	13,219	6,403
Total governmental activities					<u>\$ 165,872</u>	<u>\$ 105,374</u>	<u>\$ 41,414</u>	<u>\$ 229,832</u>	<u>\$ 33,116</u>
Business-type activities									
Bonds and notes payable									
General revenue bonds									
USDA Rural Development	\$ 1,858,000	2046	4.125%	\$15,000 - \$92,000	\$ -	\$ 924,000	\$ -	\$ 924,000	\$ 15,000
Installment purchase agreements									
Installment loan	390,427	05/31/06	4.50%	\$25,000 - \$258,000	323,378	-	323,378	-	-
Total business-type activities					<u>\$ 323,378</u>	<u>\$ 924,000</u>	<u>\$ 323,378</u>	<u>\$ 924,000</u>	<u>\$ 15,000</u>

Village of Cass City
Notes to Financial Statements
December 31, 2006

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 33,116	\$ 11,653	\$ 15,000	\$ 76,642
2008	111,716	6,653	20,000	76,024
2009	20,000	2,966	21,000	75,199
2010	20,000	2,268	21,000	74,333
2011	20,000	1,570	22,000	73,466
2012-2016	25,000	872	125,000	352,894
2017-2021	-	-	155,000	324,803
2022-2026	-	-	189,000	290,071
2027-2031	-	-	232,000	247,625
2032-2036	-	-	285,000	195,815
2037-2041	-	-	347,000	131,917
2042-2046	-	-	426,000	54,162
	<u>\$ 229,832</u>	<u>\$ 25,982</u>	<u>\$ 1,858,000</u>	<u>\$1,972,951</u>

The business type activities principal amount includes the full amount of the loan. The balance in the fund reflects only the portion drawn down as of December 31, 2006.

NOTE 9 - RESTRICTED ASSETS

The balances of the restricted assets accounts in the Enterprise Funds are as follows:

Water Fund	Cash and cash equivalents	<u>\$ 12,560</u>
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NOTE 10 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The

government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The government has established a money purchase retirement plan. The Village contributed \$ 69,166 to the plan for the year ended December 31, 2006, which was 10% of gross base wages. Additionally, the employees contributed \$ 27,666 to the plan, which is a mandatory 4% match.

NOTE 12 - DEFERRED COMPENSATION PLAN

The government Council offers all government employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. For the fiscal year ended December 31, 2006, employees had contributed \$ 28,459.

NOTE 13 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

Fund balance for the general fund and related net assets have been adjusted to correct an error made in a prior year for the accrual of state shared revenues. The error had no effect on the change in fund balance for 2006.

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 729,528	\$ 723,641	\$ 723,701	\$ 60
Penalties and interest	500	570	575	5
Administration fee	10,149	10,427	10,427	-
State revenue sharing and other state revenue	282,102	282,102	275,284	(6,818)
State grants	1,100	1,189	1,188	(1)
Local contributions	4,000	8,700	8,700	-
Charges for services	186,388	177,388	156,964	(20,424)
Fines and forfeitures	4,850	5,379	4,477	(902)
Interest income	11,000	11,000	8,695	(2,305)
Other revenue	18,500	116,215	109,944	(6,271)
Total revenues	1,248,117	1,336,611	1,299,955	(36,656)
Expenditures				
General government				
Village council	4,500	2,900	2,860	(40)
Manager	95,820	98,820	91,675	(7,145)
Clerk	164,496	172,296	164,931	(7,365)
Audit	16,000	15,250	14,790	(460)
Fiscal services	112,400	141,330	137,059	(4,271)
Elections	150	150	-	(150)
Buildings and grounds	33,298	40,330	41,970	1,640
Total general government	426,664	471,076	453,285	(17,791)

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public safety				
Police	<u>418,287</u>	<u>418,987</u>	<u>414,196</u>	<u>(4,791)</u>
Public works				
Department of public works	<u>149,058</u>	<u>151,408</u>	<u>145,536</u>	<u>(5,872)</u>
Community and economic development				
Zoning	<u>1,200</u>	<u>1,415</u>	<u>535</u>	<u>(880)</u>
Recreation and culture				
Parks and recreation	<u>250,620</u>	<u>295,213</u>	<u>271,996</u>	<u>(23,217)</u>
Transfers out	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>	<u>-</u>
Total expenditures	<u>1,247,029</u>	<u>1,339,299</u>	<u>1,286,748</u>	<u>(52,551)</u>
Excess (deficiency) of revenues over expenditures	<u>1,088</u>	<u>(2,688)</u>	<u>13,207</u>	<u>15,895</u>
Fund balance - beginning of year	454,356	454,356	454,356	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>47,077</u>	<u>47,077</u>
Fund balance - beginning of year (restated)	<u>454,356</u>	<u>454,356</u>	<u>501,433</u>	<u>47,077</u>
Fund balance - end of year	<u>\$ 455,444</u>	<u>\$ 451,668</u>	<u>\$ 514,640</u>	<u>\$ 62,972</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
Major Street
For the Year Ended December 31, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 8,223	\$ 8,223	\$ 7,693	\$ (530)
Licenses and permits	-	-	-	-
Federal grants	-	45,000	40,500	(4,500)
Other state grants	169,571	169,571	189,215	19,644
Interest income	7,000	15,400	15,419	19
Other revenue	-	1,000	1,000	-
	<u>184,794</u>	<u>239,194</u>	<u>253,827</u>	<u>14,633</u>
Expenditures				
Current				
Public works	<u>144,144</u>	<u>308,244</u>	<u>280,416</u>	<u>(27,828)</u>
				-
Excess of revenues (deficiency) over expenditures	<u>40,650</u>	<u>(69,050)</u>	<u>(26,589)</u>	<u>42,461</u>
Fund balance - beginning of year	<u>415,532</u>	<u>415,532</u>	<u>415,532</u>	<u>-</u>
Fund balance - end of year	<u>\$ 456,182</u>	<u>\$ 346,482</u>	<u>\$ 388,943</u>	<u>\$ 42,461</u>

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
Local Street
For the Year Ended December 31, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 273,995	\$ 273,995	\$ 261,383	\$ (12,612)
Other state grants	104,857	104,857	112,179	7,322
Charges for services	26,700	26,700	26,286	(414)
Interest income	4,000	8,300	7,849	(451)
Other revenue	1,000	1,100	1,057	(43)
	<u>410,552</u>	<u>414,952</u>	<u>408,754</u>	<u>(6,198)</u>
Expenditures				
Current				
Public works	321,397	352,212	349,598	(2,614)
Debt service				
Principal retirement	20,000	20,000	20,000	-
Interest and fiscal charges	6,050	6,050	5,311	(739)
	<u>347,447</u>	<u>378,262</u>	<u>374,909</u>	<u>(3,353)</u>
	<u>63,105</u>	<u>36,690</u>	<u>33,845</u>	<u>(2,845)</u>
Excess of revenues (deficiency) over expenditures				
	<u>212,004</u>	<u>212,004</u>	<u>212,004</u>	<u>-</u>
Fund balance - beginning of year				
	<u>\$ 275,109</u>	<u>\$ 248,694</u>	<u>\$ 245,849</u>	<u>\$ (2,845)</u>

Village of Cass City
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Economic Development Corporation	Downtown Development Authority	
Assets			
Cash and cash equivalents	\$ 1,889	\$ 40,186	\$ 42,075
Liabilities			
Accounts payable	\$ -	\$ 2,292	\$ 2,292
Fund Balances			
Undesignated	1,889	37,894	39,783
Total liabilities and fund balances	\$ 1,889	\$ 40,186	\$ 42,075

Village of Cass City
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2006

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Nonmajor Governmental Funds</u>
Revenues			
Taxes	\$ -	\$ 47,635	\$ 47,635
Interest income	47	1,382	1,429
Other revenue	-	4,650	4,650
	<u>47</u>	<u>53,667</u>	<u>53,714</u>
Expenditures			
Current			
Community and economic development	<u>528</u>	<u>58,896</u>	<u>59,424</u>
Excess (deficiency) of revenues over expenditures	<u>(481)</u>	<u>(5,229)</u>	<u>(5,710)</u>
Other financing sources (uses)			
Transfers in	<u>1,200</u>	<u>-</u>	<u>1,200</u>
Net change in fund balance	<u>719</u>	<u>(5,229)</u>	<u>(4,510)</u>
Fund balance - beginning of year	<u>1,170</u>	<u>43,123</u>	<u>44,293</u>
Fund balance - end of year	<u>\$ 1,889</u>	<u>\$ 37,894</u>	<u>\$ 39,783</u>

See Accompanying Notes to Financial Statements

Village of Cass City

Cass City, Michigan

Single Audit Report

December 31, 2006

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Report on Schedule of Federal Awards

To the Village Council
Village of Cass City
Cass City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City for the year ended December 31, 2006, and have issued our report thereon dated April 18, 2007. These financial statements are the responsibility of Village of Cass City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming opinions on the basic financial statements of Village of Cass City taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Marlette, Michigan
April 18, 2007

Village of Cass City
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2006

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities Revenue Bond	10.760	\$ 949,946
U.S. Department of Housing and Urban Development Passed through Michigan Community Development Block Grant Sidewalk Improvements MSC 205038-ICE	14.228	<u>43,489</u>
Total Expenditures of Federal Awards		<u>\$ 993,435</u>

Village of Cass City
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2006

1. The Schedule of Expenditure of Federal Awards was prepared using the accrual basis of accounting.
2. Reconciliation of the revenue/debt reported in the basic financial statements to the Schedule of Expenditure of Federal Awards is as follows:

Water and Waste Disposal Systems for Rural Communities Revenue Bond	CFDA 10.760	
Debt reported in the basic financial statements		\$ 924,000
Plus: retainage on construction contract		<u>25,946</u>
Total expenditures for Water and Waste Disposal Systems for Rural Communities Revenue Bond		<u>949,946</u>
Sidewalk Improvement MSC 20538-ICE	CFDA 14.228	
Federal revenue as reported in the basic financial statements		40,500
Plus: retainage on construction contract		<u>2,989</u>
Total expenditures for Sidewalk Improvements		<u>43,489</u>
Total Expenditures of Federal Awards		<u>\$ 993,435</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Village Council
Village of Cass City
Cass City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated April 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Village of Cass City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Cass City internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Cass City internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely bases. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Cass City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Cass City's financial statements that is more than inconsequential will not be prevented or detected by the Village of Cass City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Cass City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Cass City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Village of Cass City in a separate letter dated April 18, 2007.

This report is intended solely for the information and use of management, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Marlette, Michigan
April 18, 2007

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Village Council
Village of Cass City
Cass City, Michigan

Compliance

We have audited the compliance of Village of Cass City with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Village of Cass City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Village of Cass City's management. Our responsibility is to express an opinion on Village of Cass City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Cass City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Cass City's compliance with those requirements.

In our opinion, Village of Cass City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control over Compliance

The management of Village of Cass City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Village of Cass City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Marlette, Michigan
April 18, 2007

Village of Cass City
Schedule of Findings and Questioned Costs
December 31, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal System for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

Village of Cass City
Schedule of Findings and Questioned Costs
December 31, 2006
(continued)

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended December 31, 2006.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for the Federal Awards for the year ended December 31, 2006.

April 18, 2007

To the Village Council
Village of Cass City
Cass City, Michigan

In planning and performing our audit of the financial statements of the Village of Cass City for the year ended December 31, 2006, we considered the Village's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated April 18, 2007, on the financial statements of the Village of Cass City.

Bank Reconciliations

It came to our attention during the course of the audit that bank reconciliation discrepancies are not being investigated and resolved on a monthly basis. Any discrepancies should be resolved prior to beginning the bank reconciliation for the next month. Leaving these items unresolved compounds the problem and makes it more difficult to track the source. Bank reconciliations are considered an important internal control procedure and should be given a high priority. When a discrepancy occurs during the reconciliation process it needs to be investigated and resolved in a timely manner.

Fixed Assets

We recommend that the Village maintain a list through out the year of items that will be added to fixed assets based on the capitalization policy established by the Village. This list should include a description, amount, and account number of where the expense is recorded in the ledger. Any fixed asset disposals should also be identified on this list.

Interfund Receivables/Payables

We recommend that on a monthly basis interfund receivables and payables be reconciled. We noted during the audit that there were discrepancies as to the amount reported as receivable in one fund and as payable in the corresponding fund. Reconciling these amounts on a monthly will allow you to identify and resolve problems in a timely manner and will strengthen your internal controls.

Accounts Payable

We recommend that an additional search for accounts payable be added as one of the Village's year end procedures. The search would be performed after year end and is done in order to identify and record invoices for expenses for the previous year when the invoice does not arrive until after year end. An item becomes an expense at the time the goods or services are received so performing this search will ensure that all accounts payable have been properly recorded and that the expense has been recorded in the proper period. During the course of the audit we found several items that required a journal entry to add the amounts to accounts payable and record the expense in the proper year.

Accrued Payroll and Vacation

The amounts to be recorded as accrued payroll and vacation as of year end should be determined and recorded by the Village. This would reduce the number of audit adjustments necessary at year end.

Journal Entries

It was noted during the audit that a number of journal entries were made after year end to correct amounts for the previous year. Analyzing and reconciling accounts on a monthly basis will strengthen internal controls and reduce the amount of adjustments required after year end.

Policies and Procedures Manual

With the implementation of SAS 112 it is required that you maintain a Policies and Procedures Manual for the Village. Although you already have a manual created, we recommend that you update the manual to include procedures for major systems of the Village and also highlight the internal controls that are in place and how they are monitored.

We will discuss the status of these comments during our next audit engagement. We have already discussed many of the comments and suggestions with various Village personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the Village Manager and his staff for their support and assistance during our audit. It is with pride that we count the Village of Cass City as one of our clients.

This report is intended solely for the information and use of the Village Council, management and others within the Village and is not intended to be and should not be used by anyone other than these specified parties

Yeo & Yeo, P.C.
Marlette, Michigan
April 18, 2007